

PUBLIC SERVICE COMMISSION OF SOUTH CAROLINA
REPORT OF THE COMMISSION STAFF

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UTILITIES DEPARTMENT

DOCKET NO. 2000-0207-W/S
CAROLINA WATER SERVICE, INC.

REPORT OF THE AUDIT DEPARTMENT
PUBLIC SERVICE COMMISSION OF SOUTH CAROLINA

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REPORT OF THE AUDIT DEPARTMENT
PUBLIC SERVICE COMMISSION OF SOUTH CAROLINA
DOCKET NO. 2000-0207-W/S
CAROLINA WATER SERVICE, INC.

SYNOPSIS

Amount Requested - Water -----	\$210,948
- Sewer -----	\$474,115
- Combined -----	\$685,063

<u>Return on Rate Base:</u>	<u>Combined</u>	<u>Water</u>	<u>Sewer</u>
Per Books -----	8.12%	9.79%	7.34%
As Adjusted-----	8.29%	10.39%	7.40%
After Proposed Increase-----	12.01%	14.31%	11.07%

<u>Return on Common Equity:</u>	<u>Combined</u>	<u>Water</u>	<u>Sewer</u>
As Adjusted-----	7.96%	12.16%	6.17%
After Proposed Increase-----	15.41%	19.83%	13.52%

<u>Operating Margin:</u>	<u>Combined</u>	<u>Water</u>	<u>Sewer</u>
Per Books -----	6.27%	11.05%	4.02%
As Adjusted-----	9.30%	13.31%	7.42%
After Proposed Increase-----	15.80%	19.14%	14.24%

REPORT OF THE AUDIT DEPARTMENT
PUBLIC SERVICE COMMISSION OF SOUTH CAROLINA
DOCKET NO. 2000-0207-W/S
CAROLINA WATER SERVICE, INC.

ANALYSIS

The Audit Department Staff has made a review of the Application of Carolina Water Service, Inc. (hereinafter referred to as "the Company") along with certain of the Company's accounting records, relative to the Company's application to increase certain rates and charges as shown in Docket No. 2000-0207-W/S.

The Company is a water and wastewater utility operating in the state of South Carolina. The Company furnishes both water and sewer service to residential and commercial customers in the counties of Aiken, Beaufort, Charleston, Dorchester, Georgetown, Lexington, Orangeburg, Richland, Sumter, Williamsburg, and York. The Company's home office is located at 2335 Sanders Road, Northbrook, Illinois 60062. Its regional office is located at 110 Queens Parkway, West Columbia, South Carolina 29169. The Company is a wholly-owned subsidiary of Utilities, Inc., which is also located at the same address in Northbrook, Illinois.

The Audit Department respectfully submits the results of its review as follows:

1. The Company filed an application on February 23, 2001 for approval of rates and charges for water and sewer services provided to its residential and commercial customers.
2. This matter is set for public hearing on Wednesday, July 11, 2001 at 10:30 a.m.

3. The Company's application uses a December 31, 2000 test period.
4. The following is a summary of the Company's most recent rates and charges:

Date of Order	Effective Date	Docket Number	Amount Requested	Amount Granted	Rate Of Return Rate Base	Operating Margin
05/31/94	05/31/94	93-738-W/S	\$804,492	\$664,542	-	13.86%
05/11/93	05/11/93	91-641-W/S	\$863,690	\$175,405	-	7.52%
08/01/90	08/01/90	89-610-W/S	\$967,706	\$845,976	-	10.42%
06/05/89	06/05/89	88-241-W/S	\$412,167	\$ 20,460	-	10.27%
12/01/86	12/01/86	86-220-W/S	\$414,936	\$287,875	-	11.38%

In this application, the Company requested additional revenue of \$685,063 and Staff calculated the requested revenue to be \$685,063.

The rate of return on rate base after accounting and pro forma adjustments was computed by the Staff to be 8.29%. This rate increases to 12.01% after the proposed increase of \$685,063.

Rate of return on common equity was computed by the Staff to be 7.96% after the effect of accounting and pro forma adjustments. Such rate of return increased to 15.41% after revenue was adjusted for the proposed increase of \$685,063. The Company had requested a return on rate base of 12.01% after the effect of its proposed increase. In computing the return on common equity, the Staff used the parent company's capital structure in order to allocate the rate base to the respective classes of capital.

The Audit Department Staff's prepared the following exhibits that are related to the Company's proposed increase:

EXHIBIT AC: OPERATING EXPERIENCE, RATE BASE, AND RATES OF RETURN-COMBINED OPERATIONS

Detailed in this Staff exhibit are the Company's Operating Experience, Rate Base, Rates of Return and Operating Margin for the test year ended December 31, 2000, the accounting and pro

forma adjustments which are necessary to correct or normalize the Company's test year operations, and the Company's normalized operations, both before and after the effect of the requested increase.

Using a rate base of \$12,113,163 and per book income of \$983,799, the Staff computed a rate of return on per book operations of 8.12% and an operating margin of 6.27%. Pro forma adjustments decreased income and decreased rate base resulting in operating income of \$949,173 and rate base of \$11,447,172. The rate of return computed by the Staff after pro forma adjustments was 8.29% and the operating margin was 9.30%. After the Staff adjusted operating income for the proposed increase, net of taxes and other expenses, plus growth, operating income increased to \$1,374,614 while rate base remained \$11,447,172. The rate of return computed by the Staff after the adjustments for proposed increase is 12.01% with an operating margin of 15.80%.

**EXHIBIT AC: OPERATING EXPERIENCE, RATE BASE AND RATES OF RETURN-
WATER OPERATIONS**

Detailed in this Staff exhibit are the Operating Experience, Rate Base, Rate of Return and Operating Margin for Water Operations.

**EXHIBIT AC: OPERATING EXPERIENCE, RATE BASE, AND RATES OF RETURN-
SEWER OPERATIONS**

Detailed in this Staff exhibit are the Operating Experience, Rate Base, Rate of Return and Operating Margin for Sewer Operations.

**EXHIBIT A-1: EXPLANATION OF ACCOUNTING AND PRO FORMA ADJUSTMENTS-
COMBINED, WATER AND SEWER**

Detailed in this Staff exhibit are the accounting and pro forma adjustments to correct or normalize the Company's operations and each adjustment made necessary to reflect the proposed increase. For comparative purposes, Company and Staff adjustments are both presented in this exhibit.

EXHIBIT A-2: CUSTOMER GROWTH COMPUTATION

The Staff's computation of the Company's customer growth factor during the test year is shown in this exhibit. The Staff computed a growth factor of 1.04% for water operations and a growth factor of .74% for sewer operations. Combined customer growth was computed by adding water customer growth and sewer customer growth.

EXHIBIT A-3: CASH WORKING CAPITAL ALLOWANCE

Detailed in Staff's exhibit is the calculation of cash working capital on per book operations at December 31, 2000. The Staff uses a forty-five day cash working capital allowance, which is consistent with past rate cases involving water and wastewater utilities. The Staff adjusted Cash Working Capital for items which corrected the book figures.

EXHIBIT A-4: COMPUTATION OF INCOME TAXES

Shown in this exhibit is Staff's computation of State and Federal Income Taxes based on taxable income after accounting and pro forma adjustments and after the effect of the requested increase. The Staff and Company used a rate of 5% for State Taxes and 34% for Federal Taxes.

EXHIBIT AC-5: RETURN ON COMMON EQUITY - COMBINED

The Company's return on common equity is computed both before and after the requested increase. The rate base, as shown on Exhibit AC, is allocated among the various classes of debt and equity according to the respective ratios as computed using the parent company's capital structure as of December 31, 2000.

Staff computed the amount of total income for return necessary to cover an embedded cost rate of 8.62% on long term debt. The remainder of total income for return produces a return of 7.96% to common equity before the requested increase. The overall cost of capital after accounting and pro forma adjustments but prior to the requested increase is 8.29%. Such overall cost equals the rate of return on rate base shown on Staff's Exhibit AC.

After the requested increase of \$685,063, income available to common equity increases to \$880,353 and return on common equity increases to 15.41%. Overall cost of capital as detailed in this exhibit equals 12.01%. Such overall cost of capital equals the rate of return on rate base on Staff's Exhibit AC.

EXHIBIT AW-5: RETURN ON COMMON EQUITY - WATER

Included in this exhibit is Return on Common Equity as allocated to the Company's water operations.

EXHIBIT AS-5: RETURN ON COMMON EQUITY - SEWER

Included in this exhibit is Return on Common Equity as allocated to the Company's sewer operations.

EXHIBIT A-6: INCOME STATEMENT

Staff, in this exhibit, presents the Company's Income Statement as of the test year ended December 31, 2000.

EXHIBIT A-7: BALANCE SHEET

The Staff presents in this exhibit the Company's Balance Sheet as of December 31, 2000.

Carolina Water Service, Inc.
Operating Experience, Rate Base and Rates of Return
Test Year Ended December 31, 2000
Combined

Description	(1) Per Books \$	(2) Accounting & Pro Forma Adjustments \$	(3) As Adjusted \$	(4) Effect of Proposed Increase \$	(5) After Proposed Increase \$
Operating Revenue:					
Service Revenue-Water	1,541,564	0	1,541,564	210,948 (14)	1,752,512
Service Revenue-Sewer	3,270,827	0	3,270,827	474,115 (14)	3,744,942
Miscellaneous Income	107,316	0	107,316	0	107,316
Uncollectibles	(28,220)	0	(28,220)	(3,999) (15)	(32,219)
Total Operating Revenues	4,891,487	0	4,891,487	681,064	5,572,551
Operating and Maintenance Expenses	2,219,539	(17,672) (1)	2,201,867	0	2,201,867
General and Administrative Expenses	684,970	(2,520) (2)	682,450	0	682,450
Depreciation & Amortization Expense	287,922	(44,466) (3)	243,456	0	243,456
Taxes Other Than Income	594,949	(13,745) (4)	581,204	8,130 (16)	589,334
Income Taxes	142,189	109,783 (5)	251,972	251,004 (17)	502,976
Amortization of ITC	(8,852)	0	(8,852)	0	(8,852)
Interest on Customer Deposits	12,910	(188) (6)	12,722	0	12,722
Total Operating Expenses	3,933,627	31,191	3,964,818	259,135	4,223,953
Net Operating Income	957,860	(31,191)	926,669	421,930	1,348,598
AFUDC	17,748	(3,147) (7)	14,601	0	14,601
Customer Growth (Exh. A-2)	8,191	(288)	7,903	3,512	11,415
Net Income For Return	983,799	(34,626)	949,173	425,442	1,374,614
Original Cost Rate Base:					
Gross Plant In Service	31,616,926	(563,328) (8)	31,053,598	0	31,053,598
Accumulated Depreciation	(3,746,648)	144,440 (9)	(3,602,208)	0	(3,602,208)
Net Plant In Service	27,870,278	(418,887)	27,451,391	0	27,451,391
Construction Work In Progress	196,236	(13,326) (10)	182,910	0	182,910
Cash Working Capital (Exh. A-3)	363,064	(6,051) (11)	357,013	0	357,013
Water Service Corporation - Rate Base	158,647	(8,457) (12)	150,190	0	150,190
Advances In Aid of Construction	(1,000)	0	(1,000)	0	(1,000)
Contributions In Aid of Construction	(13,538,305)	0	(13,538,305)	0	(13,538,305)
Plant Acquisition Adjustment	(525,890)	0	(525,890)	0	(525,890)
Excess Book Value	(1,026,646)	0	(1,026,646)	0	(1,026,646)
Accumulated Deferred Income Taxes	(1,224,199)	0	(1,224,199)	0	(1,224,199)
Customer Deposits	(159,022)	(219,269) (13)	(378,291)	0	(378,291)
Total Rate Base	12,113,163	(665,990)	11,447,172	0	11,447,172
Return on Rate Base	8.12%		8.29%		12.01%
Operating Margin After Interest Exp.	6.27%		9.30%		15.80%
Interest Expense for Oper. Margin	677,300		494,261		494,261

Carolina Water Service, Inc.
Operating Experience, Rate Base and Rates of Return
Test Year Ended December 31, 2000
Water

Description	(1) Per Books	(2) Accounting & Pro Forma Adjustments	(3) As Adjusted	(4) Effect of Proposed Increase	(5) After Proposed Increase
	\$	\$	\$	\$	\$
Operating Revenue:					
Service Revenue	1,541,564	0	1,541,564	210,948 (14)	1,752,512
Miscellaneous Income	31,068	0	31,068	0	31,068
Uncollectibles	(8,819)	0	(8,819)	(1,202) (15)	(10,021)
Total Operating Revenues	1,563,813	0	1,563,813	209,746	1,773,559
Operating and Maintenance Expenses	581,634	(7,884) (1)	573,750	0	573,750
General and Administrative Expenses	245,017	(908) (2)	244,109	0	244,109
Depreciation & Amortization Expense	113,777	(34,950) (3)	78,827	0	78,827
Taxes Other Than Income	209,497	(10,348) (4)	199,149	2,504 (16)	201,652
Income Taxes	44,435	73,163 (5)	117,598	77,301 (17)	194,899
Amortization of ITC	(2,656)	0	(2,656)	0	(2,656)
Interest on Customer Deposits	4,648	(67) (6)	4,581	0	4,581
Total Operating Expenses	1,196,352	19,005	1,215,357	79,805	1,295,162
Net Operating Income	367,461	(19,005)	348,456	129,941	478,397
AFUDC	5,324	(1,133) (7)	4,191	0	4,191
Customer Growth (Exh. A-2)	3,822	(198)	3,624	1,351	4,975
			0		
Net Income For Return	376,607	(20,336)	356,271	131,292	487,563
Original Cost Rate Base:					
Gross Plant In Service	9,901,426	(397,401) (8)	9,504,025	0	9,504,025
Accumulated Depreciation	(1,539,531)	66,205 (9)	(1,473,326)	0	(1,473,326)
Net Plant In Service	8,361,895	(331,196)	8,030,699	0	8,030,699
Construction Work In Progress	0	0 (10)	0	0	0
Cash Working Capital (Exh. A-3)	103,331	(1,553) (11)	101,779	0	101,779
Water Service Corporation	56,751	(3,045) (12)	53,706	0	53,706
Advances in Aid of Construction	(500)	0	(500)		(500)
Contributions in Aid of Construction	(3,637,752)	0	(3,637,752)	0	(3,637,752)
Plant Acquisition Adjustment	(235,559)	0	(235,559)		(235,559)
Excess Book Value	(307,994)	0	(307,994)	0	(307,994)
Accumulated Deferred Income Taxes	(438,017)	0	(438,017)	0	(438,017)
Customer Deposits	(56,882)	(78,937) (13)	(135,819)	0	(135,819)
Total Rate Base	3,845,273	(414,730)	3,430,543	0	3,430,543
Return on Rate Base	9.79%		10.39%		14.21%
Operating Margin	11.05%		13.31%		19.14%
Interest Expense for Oper. Margin	203,878		148,123		148,123

Carolina Water Service, Inc.
Operating Experience, Rate Base and Rates of Return
Test Year Ended December 31, 2000
Sewer

Description	(1) Per Books \$	(2) Accounting & Pro Forma Adjustments \$	(3) As Adjusted \$	(4) Effect of Proposed Increase \$	(5) After Proposed Increase \$
Operating Revenue:					
Service Revenue	3,270,827	0	3,270,827	474,115 (14)	3,744,942
Miscellaneous Income	76,248	0	76,248	0	76,248
Uncollectibles	(19,401)	0	(19,401)	(2,797) (15)	(22,198)
Total Operating Revenues	3,327,674	0	3,327,674	471,318	3,798,992
Operating and Maintenance Expenses	1,637,905	(9,788) (1)	1,628,117	0	1,628,117
General and Administrative Expenses	439,953	(1,612) (2)	438,341	0	438,341
Depreciation & Amortization Expense	174,145	(9,516) (3)	164,629	0	164,629
Taxes Other Than Income	385,452	(3,397) (4)	382,055	5,627 (16)	387,682
Income Taxes	97,755	36,619 (5)	134,374	173,703 (17)	308,077
Amortization of ITC	(6,196)	0	(6,196)	0	(6,196)
Interest on Customer Deposits	8,262	(121) (6)	8,141	0	8,141
Total Operating Expenses	2,737,276	12,185	2,749,461	179,330	2,928,791
Net Operating Income	590,398	(12,185)	578,213	291,988	870,201
AFUDC	12,424	(2,014) (7)	10,410	0	10,410
Customer Growth (Exh. A-2)	4,369	(90)	4,279	2,161	6,439
Net Income For Return	607,191	(14,289)	592,901	294,149	887,050
Original Cost Rate Base:					
Gross Plant In Service	21,715,500	(165,927) (8)	21,549,573	0	21,549,573
Accumulated Depreciation	(2,207,117)	78,236 (9)	(2,128,881)	0	(2,128,881)
Net Plant In Service	19,508,383	(87,692)	19,420,691	0	19,420,691
Construction Work In Progress	196,236	(13,326) (10)	182,910	0	182,910
Cash Working Capital (Exh. A-3)	259,732	(4,498) (11)	255,234	0	255,234
Water Service Corporation	101,896	(5,412) (12)	96,484	0	96,484
Advances in Aid of Construction	(500)	0	(500)	0	(500)
Contributions in Aid of Construction	(9,900,553)	0	(9,900,553)	0	(9,900,553)
Plant Acquisition Adjustment	(290,331)	0	(290,331)	0	(290,331)
Excess Book Value	(718,652)	0	(718,652)	0	(718,652)
Accumulated Deferred Income Taxes	(786,182)	0	(786,182)	0	(786,182)
Customer Deposits	(102,140)	(140,332) (13)	(242,472)	0	(242,472)
Total Rate Base	8,267,889	(251,260)	8,016,629	0	8,016,629
Return on Rate Base	7.34%		7.40%		11.07%
Operating Margin	4.02%		7.42%		14.24%
Interest Expense for Oper. Margin	473,422		346,139		346,139

Carolina Water Service, Inc.
Explanation of Accounting and Pro Forma Adjustments
Test Year Ended December 31, 2000

Adj. Revenues and Expenses # Description	(1) O&M Expenses	(2) G&A Expense	(3) Depre. & Amort. Expense	(4) Taxes Other Than Income	(5) Income Taxes	(6) Interest on Cust. Deposits	(7) AFUDC
	\$	\$	\$	\$	\$	\$	\$
(1) The Company and Staff propose to annualize operator's salary for the test year. Staff annualized wages using the payroll at 12-26-2000 and subtracted the per book payroll from this amount. The Staff and Company computed taxes and benefits. The Company also annualized year-end salaries. However, the Company's adjustment included 2 terminated employees and 1 1/2 vacant operator positions. Staff capitalized 20.67% of the wage adjustment. Staff capitalized a portion of annualized wages representing time operators spend on capital projects. (A)							
Per Staff - Combined	18,134			1,246			
Per Staff - Water	0			0			
Per Staff - Sewer	18,134			1,246			
Per Company - Combined	75,269			7,555			
Per Company - Water	0			0			
Per Company - Sewer	75,269			7,555			
(2) The Staff and Company propose to annualize wages for office salaries. The Staff annualized salaries using payroll information for the period ending 12-26-2000 and subtracted per book payroll from this amount. The Staff and Company computed taxes and benefits associated with the wage adjustment. The Company also annualized year end salaries. However, the Company's adjustment included the annualized salary of 1 terminated employee. The total office salary adjustment is charged to General and Administrative expenses. (A)							
Per Staff - Combined		(3,949)		(246)			
Per Staff - Water		(1,422)		(89)			
Per Staff - Sewer		(2,527)		(157)			
Per Company - Combined		15,216		8,550			
Per Company - Water		5,478		3,078			
Per Company - Sewer		9,738		5,472			

Carolina Water Service, Inc.
Explanation of Accounting and Pro Forma Adjustments
Test Year Ended December 31, 2000

Adj. Revenues and Expenses	(1)	(2)	(3)	(4)	(5)	(6)	(7)
# Description	O&M Expenses	G&A Expense	Depre. & Amort. Expense	Taxes Other Than Income	Income Taxes	Interest on Cust. Deposits	AFUDC
	\$	\$	\$	\$	\$	\$	\$

(3) Staff proposes to remove CWS employee holiday bonuses of \$2,381 and WSC bonuses allocated to CWS of \$136. These bonuses are considered the responsibility of the stockholder. (A)

Per Staff - Combined	(2,094)	(423)					
Per Staff - Water	(753)	(152)					
Per Staff - Sewer	(1,341)	(271)					
Per Company - Combined	0	0					
Per Company - Water	0	0					
Per Company - Sewer	0	0					

(4) The Staff proposes to adjust common expenses, direct salaries, Charlotte Warehouse, Charlotte Office, and Columbia Office for customer equivalents updated to 12-31-2000. Staff recalculated allocation factors and applied the factors to the appropriate expenses. The Company's allocations are based on customer equivalents at June 30, 2000. (A)

Per Staff - Combined	(10,665)	(753)	(351)	(845)			
Per Staff - Water	(3,839)	(271)	(126)	(304)			
Per Staff - Sewer	(6,826)	(482)	(225)	(541)			
Per Company - Combined	0	0	0	0			
Per Company - Water	0	0	0	0			
Per Company - Sewer	0	0	0	0			

Carolina Water Service, Inc.
Explanation of Accounting and Pro Forma Adjustments
Test Year Ended December 31, 2000

Adj. Revenues and Expenses # Description	(1) O&M Expenses	(2) G&A Expense	(3) Depre. & Amort. Expense	(4) Taxes Other Than Income	(5) Income Taxes	(6) Interest on Cust. Deposits	(7) AFUDC
	\$	\$	\$	\$	\$	\$	\$

(5) The Staff and Company propose to adjust for rate case expenses. Staff's adjustment includes recomputed executive salary of \$14,535 using base pay, actual legal fees of \$21,557, and rate case notices of \$5,995. Staff amortized total expenses of \$42,087 over three years for total amount of \$14,029. The Company's adjustment included executive salary of \$65,600, travel of \$2,600, legal fees of \$100,000 and the cost of the capital witness of \$20,000 amortized over three years for a total adjustment of \$62,733. (A)

Per Staff - Combined	14,029						
Per Staff - Water	5,050						
Per Staff - Sewer	8,979						
Per Company - Combined	62,733						
Per Company - Water	22,441						
Per Company - Sewer	40,292						

(6) Staff proposes to adjust Deferred Charges to reflect allowable expenses, those expenses which are unanticipated and non-recurring. This adjustment is made in accordance with the SC Supreme Court Case in Docket No. 93-738- W/S. Such expenses which are disallowed are tank painting and jetting sewer lines, and rate case expenses not related to CWS. (A)

Per Staff - Combined	(6,800)	(7,352)		(6,164)			
Per Staff - Water	(3,292)	(2,647)		(2,219)			
Per Staff - Sewer	(3,508)	(4,705)		(3,945)			
Per Company - Combined	0	0		0			
Per Company - Water	0	0		0			
Per Company - Sewer	0	0		0			

Carolina Water Service, Inc.
Explanation of Accounting and Pro Forma Adjustments
Test Year Ended December 31, 2000

Adj. #	Revenues and Expenses Description	(1) O&M Expenses	(2) G&A Expense	(3) Depre. & Amort. Expense	(4) Taxes Other Than Income	(5) Income Taxes	(6) Interest on Cust. Deposits	(7) AFUDC
		\$	\$	\$	\$	\$	\$	\$

(7) Staff proposes to remove CWS expenses which are considered non-allowable for ratemaking purposes. These items include flowers, 1/2 chamber of commerce dues, purchased water billing error, expenses for which the Company could not provide the invoices, and reclassified plant items. Staff reclassified and disallowed a total of \$19,479 in direct expenses. Staff also proposes to remove WSC common expenses allocated to CWS, which are considered nonallowable for ratemaking purposes. These expenses include out of test year expenses, flowers, 1/2 Chamber of Commerce dues, capital items, and employee newsletters. A total of \$12,323 of expenses were nonallowable, of which CWS was allocated \$841 or 6.823%. (A)

Per Staff - Combined	(16,248)	(4,072)						
Per Staff - Water	0	(1,466)						
Per Staff - Sewer	(16,248)	(2,606)						
Per Company - Combined	0	0						
Per Company - Water	0	0						
Per Company - Sewer	0	0						

Carolina Water Service, Inc.
Explanation of Accounting and Pro Forma Adjustments
Test Year Ended December 31, 2000

Adj. Revenues and Expenses # Description	(1) O&M Expenses	(2) G&A Expense	(3) Depre. & Amort. Expense	(4) Taxes Other Than Income	(5) Income Taxes	(6) Interest on Cust. Deposits	(7) AFUDC
	\$	\$	\$	\$	\$	\$	\$
(8) Staff and Company propose to annualize depreciation expense. Staff includes plant additions of \$23,239 and reduced gross plant for Organization Expense, land, vehicles, computer, CIAC, Plant Acquisition Adjustment, and Advances in Aid, before applying the depreciation rate of 1.50% to the net amount of \$15,480,429. Staff then depreciated vehicles and computers @ 20%. Staff computed the WSC Rate Base depreciation expense and decreased Depreciation expense for annualized excess book value. Depreciation rates used by the Staff were recommended by the Utilities Department. Staff's net adjustment amounted to \$32,970. The Company included \$372,950 of plant additions and did not remove organization expense or computers before applying 1.5% for depreciation expense. The Company did not adjust for the WSC Rate Base or Excess Book Value. The Company's adjustment is \$26,917.							
Per Staff - Combined			(32,970)				
Per Staff - Water			(26,075)				
Per Staff - Sewer			(6,895)				
Per Company - Combined			26,917				
Per Company - Water			(3,725)				
Per Company - Sewer			30,642				

Carolina Water Service, Inc.
Explanation of Accounting and Pro Forma Adjustments
Test Year Ended December 31, 2000

Adj. Revenues and Expenses # Description	(1) O&M Expenses	(2) G&A Expense	(3) Depre. & Amort. Expense	(4) Taxes Other Than Income	(5) Income Taxes	(6) Interest on Cust. Deposits	(7) AFUDC
	\$	\$	\$	\$	\$	\$	\$

(9) Staff proposes to allocate a portion of depreciation expense associated with the leasing of the CWS West Columbia office to Biotech, a Utilities, Inc. subsidiary. CWS has leased 51% of the office building for 5 years @ \$1.00 per year. Since the Company is not receiving compensation, a portion of expenses should be allocated to Bio Tech. Bio Tech is currently paying for their portion of operating costs such as utilities and property taxes. (A)

Per Staff - Combined	(3,744)						
Per Staff - Water	(1,348)						
Per Staff - Sewer	(2,396)						
Per Company - Combined	0						
Per Company - Water	0						
Per Company - Sewer	0						

(10) The Staff proposes to remove property taxes associated with plant at River Hills, I-20 and Watergate no longer being used due to bulk water and/or sewer agreements. Staff proposes to compute depreciation expense using depreciable plant and a 1.50% depreciation rate. (A & U)

Per Staff - Combined	(7,401)	(7,736)					
Per Staff - Water	(7,401)	(7,736)					
Per Staff - Sewer	0	0					
Per Company - Combined	0	0					
Per Company - Water	0	0					
Per Company - Sewer	0	0					

Carolina Water Service, Inc.
Explanation of Accounting and Pro Forma Adjustments
Test Year Ended December 31, 2000

Adj. Revenues and Expenses # Description	(1) O&M Expenses	(2) G&A Expense	(3) Depre. & Amort. Expense	(4) Taxes Other Than Income	(5) Income Taxes	(6) Interest on Cust. Deposits	(7) AFUDC
	\$	\$	\$	\$	\$	\$	\$
(11) The Company proposes to adjust for an estimated 5% increase in Utility Commission Taxes. Staff adjusted for any changes in gross receipts taxes in the adjustment for the proposed increase. (A)							
Per Staff - Combined				0			
Per Staff - Water				0			
Per Staff - Sewer				0			
Per Company - Combined				2,850			
Per Company - Water				891			
Per Company - Sewer				1,959			

(12) The Staff and Company propose to adjust taxes for accounting and pro forma adjustments. Staff and Company used a 5% rate for state taxes and a 34% rate for federal taxes. (A)

Per Staff - Combined	109,782
Per Staff - Water	73,163
Per Staff - Sewer	36,619
Per Company - Combined	440
Per Company - Water	25,644
Per Company - Sewer	(25,204)

Carolina Water Service, Inc.
Explanation of Accounting and Pro Forma Adjustments
Test Year Ended December 31, 2000

Adj. Revenues and Expenses # Description	(1) O&M Expenses	(2) G&A Expense	(3) Depre. & Amort. Expense	(4) Taxes Other Than Income	(5) Income Taxes	(6) Interest on Cust. Deposits	(7) AFUDC
	\$	\$	\$	\$	\$	\$	\$

(13) The Staff proposes to annualize Interest on Customers Deposits. Staff used the balance at 12-31-2000 of \$159,022 and applied the Commission approved interest rate of 8%, which amounted to \$12,722. Staff subtracted the per book Interest expense of \$12,910 from this amount resulting in an adjustment of (\$188). (A)

Per Staff - Combined	(188)
Per Staff - Water	(67)
Per Staff - Sewer	(121)

Per Company - Combined	0
Per Company - Water	0
Per Company - Sewer	0

(14) The Staff and Company propose to remove the Allowance for Funds used During Construction. Staff removes the AFUDC associated with CWIP that has been completed and transferred to Plant in Service. The Company proposes to eliminate the total amount of AFUDC.(A)

Per Staff - Combined	(3,147)
Per Staff - Water	(1,133)
Per Staff - Sewer	(2,014)

Per Company - Combined	(17,478)
Per Company - Water	(6,292)
Per Company - Sewer	(11,186)

Total Accounting and Pro Forma Adjustments

Revenue and Expenses - Per Staff							
Combined	(17,672)	(2,520)	(44,466)	(13,745)	109,782	(188)	(3,147)
Water	(7,884)	(908)	(34,950)	(10,348)	73,163	(67)	(1,133)
Sewer	(9,788)	(1,612)	(9,516)	(3,397)	36,619	(121)	(2,014)

Carolina Water Services, Inc.
Accounting & Proforma Adjustments
Test Year Ended December 31, 2000

Adj. No.	Rate Base	(8) Plant in Service	(9) Accum. Depr.	(10) CWIP	(11) Cash Working Capital	(12) WSC Rate Base	(13) Customer Deposits
		\$	\$	\$	\$	\$	\$
(15)	The Staff proposes to capitalize wages and benefits associated with the annualization of operator's salaries. Staff and Company propose to capitalize 20.87% of the wage adjustment. The capitalization rate is based on actual wages capitalized during the test year.						
	Per Staff - Combined	5,112					
	Per Staff - Water	0					
	Per Staff - Sewer	5,112					
	Per Company - Combined	0					
	Per Company - Water	0					
	Per Company - Sewer	0					
(16)	The Staff proposes to remove officers' and other WSC employee bonuses from capitalized wages. Staff removed short term and long term bonuses from salaries directly capitalized to CWS of \$43,896. Staff also removed 3% of officers' salary increases of \$1,502 received in the test year. (A)						
	Per Staff - Combined	(45,398)					
	Per Staff - Water	(16,343)					
	Per Staff - Sewer	(29,055)					
	Per Company - Combined	0					
	Per Company - Water	0					
	Per Company - Sewer	0					

Carolina Water Services, Inc.
Accounting & Proforma Adjustments
Test Year Ended December 31, 2000

Adj. No.	Rate Base	(8)	(9)	(10)	(11)	(12)	(13)
		Plant in	Accum.	CWIP	Cash	WSC	Customer
		Service	Depr.		Working	Rate Base	Deposits
		\$	\$	\$	\$	\$	\$

(17) The Staff proposes to disallow CWS test year plant additions, found in the sample, for which the company could not provide support and to reclassify items which should be expensed. These additions totaled \$8,852. (A)

Per Staff - Combined	(8,852)
Per Staff - Water	(3,187)
Per Staff - Sewer	(5,665)
Per Company - Combined	0
Per Company - Water	0
Per Company - Sewer	0

(18) Staff proposes to allocate a portion of expenses found in the WSC sample which should have been capitalized. Staff removed CWS's portion from expenses and capitalized 7.10% of the WSC amount of \$3,587 to CWS, amounting to \$255. (A)

Per Staff - Combined	255
Per Staff - Water	92
Per Staff - Sewer	163
Per Company - Combined	0
Per Company - Water	0
Per Company - Sewer	0

Carolina Water Services, Inc.
Accounting & Proforma Adjustments
Test Year Ended December 31, 2000

Adj. No.	Rate Base	(8)	(9)	(10)	(11)	(12)	(13)
		Plant in Service	Accum. Depr.	CWIP	Cash Working Capital	WSC Rate Base	Customer Deposits
	\$	\$	\$	\$	\$	\$	\$

(19) The Company and Staff propose to adjust for plant additions. Staff verified a total of \$23,239 for completed plant additions. Of the \$23,239, \$9,913 is a plant addition and \$13,326 is transferred from CWIP. The Company proposes total plant additions estimated at \$372,950. (A)

Per Staff - Combined	23,239			(13,326)			
Per Staff - Water	0			0			
Per Staff - Sewer	23,239			(13,326)			
Per Company - Combined	372,950			0			
Per Company - Water	187,000			0			
Per Company - Sewer	185,950			0			

(20) The Staff proposes to adjust the WSC Rate Base. Staff verified the WSC rate base and removed deferred charges, adjusted accumulated deferred income taxes and adjusted accumulated depreciation for the computer rates recommended by the Utilities Department. Staff computed Rate Base amounted to \$150,190 less the per book amount of \$158,647 resulting in an adjustment of \$8,457. (A)

Per Staff - Combined	(8,457)						
Per Staff - Water	(3,045)						
Per Staff - Sewer	(5,412)						
Per Company - Combined	0						
Per Company - Water	0						
Per Company - Sewer	0						

Carolina Water Services, Inc.
Accounting & Proforma Adjustments
Test Year Ended December 31, 2000

Adj. No.	Rate Base	(8)	(9)	(10)	(11)	(12)	(13)
		Plant in	Accum.	CWIP	Cash	WSC	Customer
		Service	Depr.		Working	Rate Base	Deposits
		\$	\$	\$	\$	\$	\$

(21) The Staff proposes to allocate a portion of CWS plant associated with the CWS business office in West Columbia. CWS owns the building and has leased it to Biotech for five(5) years for a total of \$5.00. Since the rent is so minimal, Staff proposes to allocate a portion of the building and accumulated depreciation to Biotech. (A)

Per Staff - Combined	(249,565)	111,471					
Per Staff - Water	(89,843)	40,130					
Per Staff - Sewer	(159,722)	71,341					
Per Company - Combined	0	0					
Per Company - Water	0	0					
Per Company - Sewer	0	0					

(22) The Staff proposes to remove plant and accumulated depreciation expense associated with investment in wells, as allocated by the Company based on a customer ratio, for areas not being served by purchased water and sewer treatment agreements. These areas would include River Hills and I-20.

Per Staff - Combined	(288,119)						
Per Staff - Water	(288,119)						
Per Staff - Sewer	0						
Per Company - Combined	0						
Per Company - Water	0						
Per Company - Sewer	0						

Carolina Water Services, Inc.
Accounting & Proforma Adjustments
Test Year Ended December 31, 2000

Adj. No.	Rate Base	(8) Plant in Service \$	(9) Accum. Depr. \$	(10) CWIP \$	(11) Cash Working Capital \$	(12) WSC Rate Base \$	(13) Customer Deposits \$
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(23) The Staff proposes to adjust accumulated depreciation for the annualized depreciation expense adjustment. Staff computed a reduction to depreciation expense of \$32,970 resulting in an decrease to accumulated depreciation. (A)

Per Staff - Combined	32,970						
Per Staff - Water	26,075						
Per Staff - Sewer	6,895						
Per Company - Combined	0						
Per Company - Water	0						
Per Company - Sewer	0						

(24) The Staff and Company propose to adjust Cash Working Capital. The Staff adjusts for items which correct the books. The Company adjusts for pro forma expenses. (A)

Per Staff - Combined	(6,051)						
Per Staff - Water	(1,553)						
Per Staff - Sewer	(4,498)						
Per Company - Combined	19,214						
Per Company - Water	6,858						
Per Company - Sewer	12,356						

Carolina Water Services, Inc.
Accounting & Proforma Adjustments
Test Year Ended December 31, 2000

Adj. No.	Rate Base	(8)	(9)	(10)	(11) Cash Working Capital	(12) WSC Rate Base	(13) Customer Deposits
		Plant in Service	Accum. Depr.	CWIP			
		\$	\$	\$	\$	\$	\$

(25) The Staff proposes to adjust for accrued interest on customer deposits. (A)

Per Staff - Combined	(219,269)
Per Staff - Water	(78,937)
Per Staff - Sewer	(140,332)
Per Company - Combined	0
Per Company - Water	0
Per Company - Sewer	0

Total Accounting and Pro Forma Adjustments - Rate Base
Combined - Per Staff
Water - Per Staff
Sewer - Per Staff

(563,328)	144,440	(13,326)	(6,051)	(8,457)	(219,269)
(397,401)	66,205	0	(1,553)	(3,045)	(78,937)
(165,927)	78,236	(13,326)	(4,498)	(5,412)	(140,332)

A- Primarily sponsored by the Audit Department
U- Primarily sponsored by the Utilities Department

CWS - Carolina Water Service, Inc.
WSC - Water Service Corporation, Inc.

Carolina Water Service, Inc.
Explanation of Accounting and Pro Forma Adjustments
Test Year Ended December 31, 2000

Adj. #	Proposed Increase Description	(14) Service Revenue	(15) Uncollectible Accounts	(16) Taxes Other Than Inc.	(17) Income Taxes
		\$	\$	\$	\$
(26)	Staff and Company propose to show the effect of the proposed rates and charges. Staff's adjustment includes the computation of Income Taxes and Customer Growth. (A & U)				
	Per Staff - Combined	685,063	(3,999)	8,130	251,004
	Per Staff - Water	210,948	(1,202)	2,504	77,301
	Per Staff - Sewer	474,115	(2,797)	5,627	173,703
	Per Company - Combined	685,063	(4,019)	2,055	253,262
	Per Company - Water	210,948	(1,207)	633	77,997
	Per Company - Sewer	474,115	(2,812)	1,422	175,265
	Total Accounting and Pro Forma Adjustments -				
	Proposed Increase - Per Staff - Combined	685,063	(3,999)	8,130	251,004
	Proposed Increase - Per Staff - Water	210,948	(1,202)	2,504	77,301
	Proposed Increase - Per Staff - Sewer	474,115	(2,797)	5,627	173,703

(A) - Adjustment is the responsibility of the Audit Department witness.
(U) - Adjustment is the responsibility of the Utilities Department witness.

Carolina Water Service, Inc.
Customer Growth Computation
Test Year Ended December 31, 2000

	(1)	(2)	(3)	(4)	(5)
Combined Operations:		Accounting		Effect of	
Description	Per Books	& Pro Forma	As	Proposed	After
		Adjustments	Adjusted	Increase	Increase
	\$	\$	\$	\$	\$
Water Customer Growth	3,822	(198)	3,624	1,351	4,975
Sewer Customer Growth	4,369	(90)	4,279	2,161	6,439
Combined Cust. Growth	8,191	(288)	7,903	3,512	11,415
Number of Customers:					
Beginning	17,011	Formula:			
Ending	17,304	Ending - Average			
Average	17,158	Average			
				146	0.85%

Water Operations:

Net Operating Income	367,461	(19,005)	348,456	129,941	478,397
Growth Factor	1.04%	1.04%	1.04%	1.04%	1.04%
Customer Growth	3,822	(198)	3,624	1,351	4,975
Number of Customers:					
Beginning	6,061	Formula:			
Ending	6,190	Ending - Average			
Average	6,126	Average			
				64	1.04%

Sewer Operations:

Net Operating Income	590,398	(12,185)	578,213	291,988	870,201
Growth Factor	0.74%	0.74%	0.74%	0.74%	0.74%
Customer Growth	4,369	(90)	4,279	2,161	6,439
Number of Customers:					
Beginning	10,950	Formula:			
Ending	11,114	Ending - Average			
Average	11,032	Average			
				82	0.74%

Note: Combined Customer Growth equals Water plus Sewer Customer Growth

Carolina Water Service, Inc.
Cash Working Capital Allowance
Test Year Ended December 31, 2000

	Combined Operations	Water Operations	Sewer Operations
	\$	\$	\$
Operating and Maintenance	2,219,539	581,634	1,637,905
General and Administrative	684,970	245,017	439,953
Total Expenses for Computation	2,904,509	826,651	2,077,858
Allowable Rate	12.50%	12.50%	12.50%
Per Books - Cash Working Capital	363,064	103,331	259,732
Correcting Adjustments	(48,407)	(12,420)	(35,987)
Allowable Rate	12.50%	12.50%	12.50%
Cash Working Capital Adjustment	(6,051)	(1,553)	(4,498)
Cash Working Capital As Adjusted	357,013	101,779	255,234

Carolina Water Service, Inc.
Computation of Income Taxes
Test Year Ended December 31, 2000

	Combined	As Adjusted Water	Sewer
	\$	\$	\$
Operating Revenue As Adjusted	4,891,487	1,563,813	3,327,674
Operating Expenses As Adjusted	3,721,698	1,100,415	2,621,283
Net Operating Income Before Taxes	1,169,789	463,398	706,391
Less: Annualized Interest Expense	(494,261)	(148,123)	(346,139)
Taxable Income - State	675,527	315,276	360,252
State Income Taxes @ 5%	33,776	15,764	18,013
Taxable Income - Federal	641,751	299,512	342,239
Federal Income Taxes @ 34%	218,195	101,834	116,361
Total State and Federal Taxes	251,972	117,598	134,374
Less: Per Book Income Taxes	142,189	44,435	97,755
Adjustment	109,783	73,163	36,619

	Combined	After Proposed Increase Water	Sewer
	\$	\$	\$
Operating Revenue As Adjusted	5,572,551	1,773,559	3,798,992
Operating Expenses As Adjusted	3,729,829	1,102,918	2,626,910
Net Operating Income Before Taxes	1,842,722	670,640	1,172,082
Less: Annualized Interest Expense	(494,261)	(148,123)	(346,139)
Taxable Income - State	1,348,461	522,518	825,943
State Income Taxes @ 5%	67,423	26,126	41,297
Taxable Income - Federal	1,281,038	496,392	784,646
Federal Income Taxes @ 34%	435,553	168,773	266,780
Total State and Federal Taxes	502,976	194,899	308,077
Less: Income Taxes as Adjusted	251,972	117,598	134,374
Adjustment	251,004	77,301	173,703

Audit Exhibit AC-5

Carolina Water Service, Inc.
Return On Common Equity - Combined
Test Year Ended December 31, 2000

Description	As Adjusted				-----After Proposed Increase-----					
	Capital Structure	Ratio	Rate Base	Embedded Cost/Return	Overall Cost/Return	Income For Return	Rate Base	Embedded Cost/Return	Overall Cost/Return	Income For Return
	\$	%	\$	%	%	\$	\$	%	%	\$
Long-Term Debt	70,000,000	50.09%	5,733,889	8.62%	4.32%	494,261	5,733,889	8.62%	4.32%	494,261
Preferred Stock	-									
Common Equity	69,754,278	49.91%	5,713,284	7.96%	3.97%	454,911	5,713,284	15.41%	7.69%	880,353
Totals	139,754,278	100.00%	11,447,172		8.29%	949,173	11,447,172		12.01%	1,374,614

Carolina Water Service, Inc.
Return On Common Equity - Water
Test Year Ended December 31, 2000

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Carolina Water Service, Inc.
Return On Common Equity - Sewer
Test Year Ended December 31, 2000

Audit Exhibit AS - 5

Description	----- As Adjusted -----				-----After Proposed Increase-----			
	Capital Structure	Ratio %	Rate Base	Income For Return	Rate Base	Embedded Cost/Return	Overall Cost/Return	Income For Return
Long-Term Debt	\$ 70,000,000	50.09%	\$ 4,015,530	\$ 346,139	\$ 4,015,530	% 8.62%	% 4.32%	\$ 346,139
Preferred Stock								
Common Equity	69,754,278	49.91%	4,001,100	246,763	4,001,100	13.52%	6.75%	540,912
Totals	139,754,278	100.00%	8,016,629	592,901	8,016,629		11.07%	887,050

Carolina Water Service, Inc.
Income Statement
Year Ended December 31, 2000

	\$	\$
Revenues:		
Service Revenue	4,812,391	
Miscellaneous Revenue	107,316	
Uncollectible Revenue	<u>(28,220)</u>	
Total Operating Revenue		<u>4,891,487</u>
Expenses:		
Operating & Maintenance	2,219,539	
General	684,970	
Depreciation	497,909	
Taxes Other Than Income	594,949	
Income Taxes - Federal	138,997	
Income Taxes - State	3,192	
Amortization of ITC	(8,852)	
Amortization of CIAC	<u>(209,987)</u>	
Total Operating Expenses		<u>3,920,717</u>
Net Operating Income		970,770
AFUDC		17,748
Interest on Debt		<u>(677,300)</u>
NET INCOME		<u><u>311,218</u></u>

CAROLINA WATER SERVICE, INC.

BALANCE SHEET

December 31, 2000

ASSETS

Plant In Service

Water
Sewer

\$ 9,901,426
21,715,500

Total

\$ 31,616,926

Accumulated Depreciation-Water Accumulated Depreciation-Sewer

(1,539,531)
(2,207,117)

Total

\$ (3,746,648)

Net Utility Plant

\$ 27,870,278

Plant Acquisition Adjustment-Water Plant Acquisition Adjustment-Sewer

(235,559)
(290,331)

Total

\$ (525,890)

Construction Work In Process-Water Construction Work In Process-Sewer

196,236

Total

\$ 196,236

Current Assets

Cash
Accounts Receivable - Net
Other Current Assets

666,806
763,462
5,109

Total

\$ 1,435,377

Deferred Charges

203,467

TOTAL ASSETS

\$ 29,179,468

LIABILITIES AND OTHER CREDITS

Capital Stock and Retained Earnings

Common Stock and Paid In Capital
Retained Earnings

\$ 5,896,232
5,240,292

Total

\$ 11,136,524

Current and Accrued Liabilities

Accounts Payable-Trade
Taxes Accrued
Customer Deposits
Customer Deposits - Interest
A/P - Assoc. Companies

148,599
426,265
159,022
219,469
2,009,817

Total

\$ 2,963,172

Advances In Aid of Construction

Water
Sewer

500
500

Total

\$ 1,000

Contributions In Aid of Construction

Water
Sewer

3,637,752
9,900,553

Total

\$ 13,538,305

Accumulated Deferred Income Tax

Unamortized ITC
Deferred Tax - Federal
Deferred Tax - State

316,268
1,254,516
(30,317)

Total

\$ 1,540,467

TOTAL LIABILITIES AND OTHER CREDITS

\$ 29,179,468

Audit Exhibit A-7